United States General Accounting Office

GAO

Report to the Secretary of Agriculture

March 1991

FINANCIAL AUDIT

Forest Service's Financial Statements for Fiscal Year 1988

GAO/AFMD-91-18

GAO

United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-283763

March 18, 1991

The Honorable Edward R. Madigan
The Secretary of Agriculture

Dear Mr. Secretary:

This report presents the results of our examination of the Forest Service's financial statements for the fiscal year ended September 30, 1988. Our opinion on these statements is qualified.

This report contains separate reports on the Forest Service's system of internal accounting controls and on its compliance with laws and regulations. Our report on the Forest Service's system of internal accounting controls discloses material weaknesses affecting the Service's ability to prepare accurate and reliable external financial reports, including its year-end reports to the Department of the Treasury and the Office of Management and Budget. The Forest Service has recognized and begun to correct some of these weaknesses.

Significant effort was required to prepare the 1988 statements. Until the material weaknesses disclosed in our report are addressed, the Forest Service may have difficulty preparing future financial statements within the timeframes prescribed by the Chief Financial Officers Act of 1990.

The Forest Service's 1988 and 1989 reports, prepared as part of the Department of Agriculture's annual review under the Federal Managers' Financial Integrity Act (FMFIA), acknowledged material weaknesses in internal controls. However, the reports concluded that the Service's accounting system, taken as a whole, complied with FMFIA requirements. Based on our review, we questioned the appropriateness of that conclusion. Subsequent to the completion of our field work, the Forest Service issued its 1990 FMFIA report which recognized additional weaknesses in its accounting systems and concluded that the systems, taken as a whole, do not comply with FMFIA requirements.

Our report on compliance with laws and regulations notes that the Forest Service has previously reported two violations of the Anti-Deficiency Act. Specifically, the Forest Service reported that, in 1988, it had overobligated funds in the fiscal year 1988 apportionment for the National Forest System and overobligated the fiscal year 1987 allotment in the Job Corps account. The Forest Service reported that it was taking

action to improve its oversight of obligations. For the transactions we tested, the Forest Service complied with provisions of other laws and regulations which could have materially affected its financial statements.

This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of this letter and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of this letter.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Chief of the Forest Service, and interested congressional committees.

Sincerely yours,

Donald H. Chapin
Assistant Comptroller General

Contents

Abbreviations

FMFIA	Federal Managers' Financial Integrity Act
GAAP	generally accepted accounting principles
GSA	General Services Administration
JFMIP	Joint Financial Management Improvement Program
OMB	Office of Management and Budget
TSPIRS	Timber Sale Program Information Reporting System

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To the Chief
Forest Service

We have audited the accompanying statement of financial position of the Forest Service, an agency of the Department of Agriculture, as of September 30, 1988, and the related statements of operations and cash flows for the fiscal year then ended. These financial statements are the responsibility of the Forest Service's management. Our responsibility is to express an opinion on these financial statements based on our audit. In addition to this report on our audit of the Forest Service's fiscal year 1988 financial statements, we are also reporting on our consideration of the Forest Service's system of internal accounting controls and on its compliance with laws and regulations.

We conducted our audit in accordance with generally accepted government auditing standards, except that we were not able to substantiate certain asset and liability accounts as discussed in paragraphs 3 and 4. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit disclosed that documents supporting the original cost of land and buildings which were acquired by the Forest Service over periods dating back to its establishment in 1905 were not readily obtainable. Furthermore, the manually kept records for land, buildings, and roads were not always subject to uniform accounting controls, were not consistently updated, and were not supported by adequate documentation. Accordingly, we determined that it was not practical for us to perform, nor did we perform, sufficient alternative audit procedures to satisfy ourselves as to the proper value of these assets which have been included in the Land, Buildings, Equipment and Roads balances (note 4) or included in the Timber and Related Facilities balances (note 3).

In addition, our audit disclosed that internal accounting controls over accounts payable did not provide assurance that transactions classified as accounts payable were properly classified as liabilities rather than undelivered orders. As discussed in our separate report on internal accounting controls, weaknesses in internal controls and the nature of

these transactions combine to impair the reliability of these account balances. Thus, it was not practical to perform, nor did we perform, sufficient alternative audit procedures to satisfy ourselves as to the proper value of accounts payable and undelivered orders.

Our audit also disclosed that the amounts reported in the statements for timber and related facilities and for the cost of timber harvested (note 3) were not determined in accordance with generally accepted accounting principles (GAAP). As discussed in greater detail in our report on internal accounting controls, we worked with the Forest Service on the basic design of the Timber Sale Program Information Reporting System (TSPIRS) and monitored progress on the system's modifications and implementation. However, TSPIRS did not fully comply with GAAP, and it was not practical for us to determine the adjustments needed to the financial statements.

Financial information from the TSPIRS system, produced for the first time on a Forest Service-wide test basis in fiscal year 1988, formed the basis for the timber-related amounts reported in the financial statements. The Forest Service has recognized that problems exist with TSPIRS and has been working to make additional system modifications. The three areas in which problems were noted are as follows:

- First, the amortization formula used to calculate the cost of timber harvested in fiscal year 1988 distributed actual costs incurred to date over an unrealistically high estimate of timber volume and thereby understated the annual cost of timber harvested. Both GAO and the Forest Service have recognized that the relationship of timber costs and volumes needs further study. Our report on internal accounting controls discusses the Forest Service's actions to address the issue.
- Second, the inclusion of costs related to permanent road structures in the TSPIRS growth pool component of its Timber and Related Facilities account results in the costs being amortized over the forest rotation period. Amortizing such costs over the rotation period results in some costs being recognized as expenses too slowly. On the other hand, some costs should have been capitalized as permanent improvements to land and not amortized.
- Finally, the Forest Service did not reduce timber account balances to reflect losses incurred from record-level fires in 1987 and 1988. Under GAAP, the Forest Service's fire losses in excess of a normal and expected amount should be recognized in the year incurred. Because these fire losses occurred in the prior as well as the current year, the Forest Service's Timber and Related Facilities and Invested Capital accounts are

overstated. In addition, because these losses affected accounts for which appropriations are recognized as the resources are consumed (note 2), the effect on the Statement of Operations is to understate Operating Expenses and Financing From Appropriations.

We point out to users of the financial statements that, as discussed in note 4, the Forest Service accounts for land at its historical cost, as required by GAAP, but the land's value is much greater than its costs. The Forest Service owns, in addition to the land, the rights to mineral and other natural resources for which no additional value has been recognized. Furthermore, 85 percent of the Forest Service land was acquired by transferring lands already within the public domain and was recorded at no cost. The 191 million acres under Forest Service management are of enormous value as natural resources, and these financial statements include revenues produced from their use, including revenues from forestry operations, fees for recreation and grazing, and royalty payments for natural resources.

GAO Opinion

In our opinion, except for the effect of adjustments, if any, that might have been determined to be necessary had we been able to perform the necessary auditing procedures to substantiate the fixed asset and related expense accounts, and the accounts payable and undelivered orders accounts, and except for the effects on the timber and related facilities and cost of timber harvested of using other than generally accepted accounting principles, the financial statements referred to above present fairly, in all material respects, the financial position of the Forest Service as of September 30, 1988, and the results of its operations and cash flows for the fiscal year then ended, in conformity with generally accepted accounting principles.

Donald H. Chapin

Donald H. Chapin
Assistant Comptroller General

September 27, 1990

Report on Internal Accounting Controls

We have examined the financial statements of the Forest Service for the fiscal year ended September 30, 1988, and have issued our opinion thereon. As part of our examination, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards.

The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Forest Service's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting controls taken as a whole. For the purpose of this report, we have classified the significant internal accounting controls into the following categories:

- expenses (including cost of timber harvested);
- revenues;
- asset and liability management;
- treasury; and
- financial reporting.

Our study and evaluation included the first three of these categories. For the remaining two categories, we found it more efficient to expand the scope of our substantive audit tests, which can also serve to identify weaknesses in internal control policies and procedures.

Forest Service management is responsible for establishing and maintaining a system of internal controls, including accounting controls, in accordance with the Accounting and Auditing Act of 1950 and the Federal Managers' Financial Integrity Act of 1982 (FMFIA). In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal accounting controls are to provide management with reasonable assurance that (1) obligations and costs are in compliance with applicable laws, (2) funds, property, and other assets are safeguarded against waste, loss, and unauthorized use or misappropriation, and (3) assets, liabilities, revenues, and expenditures applicable to agency operations are properly recorded to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over agency assets. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any

evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Forest Service's Review of Its Internal Controls

The Forest Service annually evaluates its system of internal accounting and administrative controls and issues a report to the Secretary of Agriculture for inclusion in Agriculture's annual FMFIA report to the Congress. In its fiscal year 1988 FMFIA report, the Forest Service reported that its internal control system continued to provide reasonable assurance that internal control objectives were achieved, with the following exceptions:

- Control weaknesses at some locations may have contributed to theft of National Forest timber.
- An excessive backlog of items awaiting entry into the Automated Personal Property System delayed establishing physical controls over the property.

The 1988 FMFIA report also contained the Forest Service's annual assessment of its financial management system's compliance with accounting principles, standards, and related requirements for federal agencies. The Forest Service has one overall accounting system comprised of seven accounting subsystems. For those subsystems, the assessment identified one area which materially failed to comply with the applicable accounting principles and standards. The area of noncompliance was in the fund allocation process, and although the Forest Service reported that the system is reliable and efficient, it acknowledged that it had problems with Service-wide fund control and the prevention of spending in excess of fund availability.

While our audit was under way, the Forest Service also prepared and issued its 1989 FMFIA report. This report included concerns about insufficient controls over the general ledger. We had uncovered these concerns during our audit work and brought them to the Forest Service's attention. Specifically, these concerns involved the oversight of reports produced from the general ledger, reconciliation of general ledger accounts with subsidiary records, and reconciliation of the general ledger with other reporting systems. The Forest Service still concluded, however, that the accounting system generally complied with applicable accounting principles and standards.

Review of Internal Controls as Part of Our Financial Audit

We considered the Forest Service's FMFIA reports, the Department of Agriculture's Office of Inspector General reports on financial matters and internal accounting controls, and other GAO reports in determining the nature, timing, and extent of our audit procedures. Our study and evaluation of the system of internal accounting controls, made for the limited purpose described in the second paragraph, would not necessarily disclose all material weaknesses in a system.

Our study and evaluation disclosed conditions that increase the risk that errors and irregularities in amounts that would be material in relation to the Forest Service's financial statements may occur and not be promptly detected. These conditions can be summarized as follows:

- the central accounting system has not integrated all separate accounting and reporting systems, thus undermining the Forest Service's ability to produce accurate and timely financial reports, and
- internal control policies and procedures within individual accounting and reporting systems do not ensure that financial information is reliable and in compliance with prescribed accounting principles.

Office of Management and Budget (OMB) Circular A-127, which implements certain FMFIA requirements, requires that financial management information developed by an accounting system be complete and accurate and in compliance with the accounting principles and standards developed by the Comptroller General. The problems we cite above and discuss in more detail later, both as they relate to integrating the various accounting and financial reporting systems and as they relate to internal control weaknesses within the individual systems, point to serious limitations in the completeness and accuracy of the Forest Service's financial information. The nature, extent, and pervasiveness of these problems demonstrate that the internal control weaknesses materially impair the reliability of the Forest Service's accounting and reporting functions. We would not expect to see such pervasive problems in an accounting system that met FMFIA requirements. We, therefore, question the appropriateness of the Forest Service's conclusion in its 1988 and 1989 FMFIA reports that the Service's accounting system, taken as a whole, complied with FMFIA requirements. However, after we completed our fieldwork, the Forest Service issued its 1990 FMFIA report which recognizes additional weaknesses in its accounting systems and concludes that the systems, taken as a whole, did not comply with applicable principles and standards.

Central Accounting System Was Not Integrated With Subsidiary Systems

The Forest Service has not integrated the many independent accounting and reporting systems that it has developed for specific internal and external needs to create an effective central accounting system. Accounting information generated by the separate systems is not always entered into the central accounting system. As a result, the Forest Service's general ledger—the central function of an agency's financial management system—does not contain accounting information that accurately reflects the results of Forest Service operations or the agency's financial position.

To prepare its fiscal year 1988 financial statements, the Forest Service had to use alternative sources to develop certain material account balances. For that compilation, adjustments exceeding $10 billion were required to eliminate redundancies, correct errors, and conform information to accrual-based reporting requirements. However, for most of its internal and external financial reports—including its annual report to the Congress, its reports on the timber program to the Congress, and its report to GSA on fixed assets—the Forest Service relies on many accounting and reporting subsystems that are not integrated with its general ledger. In addition, although the Forest Service has acknowledged in its annual FMFIA reports that its general ledger is not properly maintained and that the account balances contain significant errors, it uses the general ledger to prepare reports to Treasury and OMB.

Federal financial system requirements incorporated into Title 2 of GAO's Policy and Procedures Manual for Guidance of Federal Agencies require that a general ledger controlled system retrieve information from data maintained in the subsidiary accounting system and report information in accordance with generally accepted accounting principles. The general ledger should contain accounting and fiscal information used for preparing financial reports.

We found the following specific examples of differences in reported amounts which resulted because the Forest Service did not integrate its general ledger with its separate subsidiary systems:

- Balances for roads built by timber purchasers—an amount totaling more than $103 million as of September 30, 1988—are reported in the Forest Service's Timber Sales Accounting System, but the related liability for these "purchaser road credits" is not recorded in the general ledger. These credits are for roads that timber purchasers build in conjunction with timber harvests but that also have future uses not connected with the timber sale, such as recreation. Timber purchasers can

use these credits in lieu of cash to pay for timber they harvest. These credits represent deferred revenues and as such should be recorded as a liability in the general ledger.

- The Forest Service's report to GSA on fixed assets such as land, buildings, roads, and other structures showed fixed assets totaling almost $8 billion, compared with fixed assets of $3.4 billion in the general ledger. The Forest Service, which developed its report to GSA using records from a separate property system, could not reconcile the amounts in that system with its general ledger accounts. Our audit found errors and omissions in both the manual posting of acquisitions and dispositions to the subsidiary ledgers as well as in data entry to the general ledger.
- The general ledger does not contain accounts for the almost $8 billion value of timber and related facilities or for the reported $100 million cost of timber harvested in fiscal year 1988 that are accounted for by TSPIRS. TSPIRS was used as the basis for annual reports to the Congress and the public on these accounts.

Internal Control Policies and Procedures Do Not Ensure That Financial Information Is Reliable

The Forest Service did not follow internal control requirements for reconciling the general ledger with related subsidiary subsystems. In addition, within the individual systems, deficient internal accounting control policies and procedures limit the reliability of reported financial information on payables, receivables, and fixed assets. These weaknesses resulted in material errors and thousands of adjustments in the Forest Service's financial statements and reports to the central management agencies, and they made it impracticable for us to determine the accuracy of certain account balances.

General Ledger Was Not Reconciled With Subsidiary Systems

We found that the Forest Service had not established a requirement that reconciliations of amounts in its general ledger with related subsidiary accounts be carried out, and documented, to ensure the accuracy of reported amounts. Title 2 requires that data in the general ledger be reconciled with related financial data in other systems, and that any change made to data in such systems should be adequately documented to enable subsequent verification and audit.

For example, we found that the Forest Service does not require the reconciliation of its Budget Cost Reporting System and the general ledger. This reconciliation would help to detect and correct errors in the general ledger and help ensure accuracy and consistency in financial reports. The Forest Service uses the Department of Agriculture Office of Financial Management's National Finance Center to maintain its general

ledger and various subsidiary systems. The Center has an automated routine that would allow reconciliation of the general ledger with the Budget Cost Reporting System, a system the Forest Service uses for monitoring budgets and obligations and for preparing various internal and external reports. However, this routine has not been used.

We also found that changes made to reconcile the general ledger and related subsidiary accounts were not adequately documented. For example, we found that 150 "data sweeps" (a process used to make mass changes to accounting data in the master file summary records) were made during fiscal year 1988. Many of the sweeps were not documented with adequate supporting information as to the purpose and authorization for the sweep, the accounts affected, or the reason for the change. We found similar problems with over 2,000 adjustments the Forest Service made to central accounts during its fiscal year 1988 closing process.

Internal Control Weaknesses in Field Limit Reliability of Reported Payables and Receivables

Our audit of accounts payable revealed that a substantial number were incorrectly classified at the unit level. We sampled 207 accounts payable items at the 24 field units we visited. Our review of these 207 transactions revealed that about 60 percent were undelivered orders rather than accounts payable. The Forest Service reported about $444 million in accounts payable to Treasury as of September 30, 1988. To the extent that accounts payable included undelivered orders, they were overstated. However, because balances for these accounts in the Forest Service's central accounting system are comprised of numerous small dollar amounts which are not reconciled with individual unit's supporting documents, it was not practical for us to extend our audit procedures or otherwise to determine the amount of adjustment needed to properly report accounts payable and undelivered orders.

Similarly, our preliminary tests of accounts receivable transactions revealed that over 8 percent of the 121 transactions we tested at the 24 field units as well as at the 8 regional offices we visited had been misclassified and were not true receivables. The Forest Service reported $1.8 billion in accounts receivable to Treasury as of September 30, 1988. Because of the classification errors we found in our initial tests, and because of errors reported in a recent audit of the Forest Service's accounts receivable by the Department of Agriculture's Office of Inspector General, we performed extended audit procedures to test the validity of all items included in the final account balance. We found that

the accounts receivable balance had to be reduced by about $1.6 billion to be fairly presented in the fiscal year 1988 financial statements.

Forest Service guidance at the field unit level for receivables and payables did not clearly describe procedures that should be followed to properly classify receivables and payables. Field staff advised us that they did not understand the coding needed to ensure proper entry of accounts receivable and accounts payable into the general ledger. Neither the U.S. Forest Service Manual nor the U.S. Forest Service Handbook, the two official documents that supply guidance to the field units, adequately defines or provides examples of transactions that are properly recorded as accounts receivable or accounts payable. Furthermore, neither includes specific guidance to ensure proper coding of these items into the general ledger. For example, Title 2 requires that balances for undelivered orders be classified as unexpended appropriations and included in the equity section of an entity's statement of financial position. However, we found that field units incorrectly recorded undelivered orders as accounts payable, a liability, because they misinterpreted the Forest Service guidance. In other instances, the Forest Service guidance is incorrect. For example, contrary to Title 2, which requires that receivables be recognized only after the right to collect has been established, field units were instructed to include balances for pending court cases and other unsettled claims as accounts receivable.

Other controls needed to ensure proper handling of receivable and payable transactions, such as supervision and review, were not adequate to ensure that the errors were detected. For these controls, the problem was not a lack of clear procedures, but rather a failure to follow prescribed procedures. For example, contrary to the Forest Service policy, field supervisors did not routinely review their staffs' input to the central accounting system, the central control accounts, or the resulting reports.

Failure to Follow Prescribed Controls for Fixed Assets Resulted in Pervasive Errors

Errors in the property records the Forest Service elected to use in preparing its balances for land, buildings, roads, and related structures[1] were so pervasive at 23 of the 24 units we visited that we could not rely on the records for assurance that the fixed asset accounts were fairly stated. Although Title 2 requires controls to ensure the accuracy of such

[1] The Forest Service asserted that its manual subsidiary fixed asset ledgers, maintained at the field units and used for fixed asset reports to GSA, were more accurate than its general ledger and elected to use them to derive balances for land, buildings, and roads for its fiscal year 1988 financial statements.

records, we found that the Forest Service units did not follow the internal control procedures it had established to ensure prompt data entry, periodic verification of account balances, and inventories.

Three internal control deficiencies undermine the reliability of the fixed asset records:

- First, despite a Forest Service requirement to do so, the manual subsidiary ledgers were not updated on a timely basis to reflect changes in assets. This requirement is contained in Title 2 as well and requires that financial data be recorded as soon as practicable after the occurrence of a transaction. Seventeen of the 24 field units had not properly maintained their subsidiary ledgers. For example, three units had not updated their ledgers for more than 8 years. Of the seven units that had made any entries to these ledgers for the current year, only one had maintained adequate documentation to support its entries.
- Second, field supervisors did not adequately review for accuracy the subsidiary ledgers or the information submitted to headquarters for reports to GSA, and headquarters did not adequately review the units' reports or check their accuracy by reconciling them to national totals. Such reviews and reconciliations are important internal control procedures to achieve reliable reporting.
- Third, field units did not adhere to Forest Service policies for periodic inventories of equipment. Taking physical inventories is an internal control that is important to ensure the reliability of accounting data. Forest Service policies call for biennial inventories of all equipment, as well as partial inventories of certain equipment items in alternate years. Six of the 24 field units we visited were not performing biennial property inventories for equipment, and 9 were not performing required alternate-year partial equipment inventories.

TSPIRS Was Not in Conformance With Generally Accepted Accounting Principles

As discussed in our opinion, the 1988 test-basis reports prepared using TSPIRS did not comply with GAAP in three important areas. Both GAO and the Forest Service have recognized the need to correct TSPIRS.

As requested by the House Subcommittee on Interior and Related Agencies in 1986, we developed the basic design for TSPIRS with input from the Forest Service. In an April 1987 report,[2] we discussed the framework for the cost accounting system. The report also outlined issues requiring

[2] Timber Program: A Cost Accounting System Design for Timber Sales in National Forests (GAO/AFMD-87-33, April 21, 1987).

additional research and resolution, such as defining the costs and revenues to be included in calculating the annual growth pool allowance costs to conform with GAAP. This included matching costs with volumes of timber and annually reviewing cost pool balances to determine how realistically they portray conditions in the forests.

We have continued to work with the Forest Service to review its progress in resolving these issues. Our February 1990 report[3] presented additional information on the status of the Forest Service's implementation of the system during the test years 1987 and 1988. As discussed in that report, the Forest Service recognized the need for improvements in the system to properly account for annual timber growth costs and to properly recognize the costs related to timber roads in accordance with GAAP requirements. The Forest Service has initiated actions to further refine these TSPIRS components.

In 1988, the Forest Service hired a public accounting firm to determine whether TSPIRS conforms to GAAP. The firm made several recommendations, and, in February 1990, the Forest Service announced that it planned to implement changes to TSPIRS which are to be reflected in fiscal year 1991 reports. The proposed changes include the revision of the TSPIRS formula and the capitalization and depreciation of road costs. TSPIRS must be further modified to ensure that cost pool balances are adjusted to reflect changes in the forests, such as losses from forest fires, insect infestations, or disease.

Conclusions

Title 2 calls for a framework of internal controls sufficient to ensure that financial statements accurately reflect the results of operations and financial position. Deficiencies in the Forest Service's system of internal controls make it extremely difficult to reach this goal. The Forest Service has not integrated its accounting and reporting systems with its general ledger and is therefore unable to rely on the general ledger to produce accurate and timely financial reports. A detailed examination of these various systems shows that other internal control problems, ranging from lack of documentation to insufficient supervisory review, are widespread. As a result, the reliability of financial information obtained from these systems is questionable.

[3] Timber Sales Program: Issues Surrounding the Timber Sales Cost Reporting System (GAO/AFMD-90-48BR, Feb. 28, 1990).

Although we were able to correct the amounts reported in the fiscal year 1988 financial statements, except as noted, these were one-time corrections and have not been made to the general ledger or other accounting records. Furthermore, one-time corrections to annual financial statements do not cure the systemic weaknesses which allowed the accounts to become incorrect. Unless the agency's internal controls are improved, the process of compiling accurate financial reports which comply with the recently enacted Chief Financial Officers legislation and with generally accepted accounting principles will continue to be difficult, and financial records will be inaccurate and incomplete, resulting in inaccurate internal information and external reports to the Congress, Treasury, GSA, and OMB.

Recommendations

We recommend that the Secretary of Agriculture direct the Chief of the Forest Service to do the following:

- Integrate all financial accounting and reporting systems with the Forest Service's general ledger so that all accounts are part of the general ledger system. This should include the capability of automatically updating all integrated systems when a transaction is processed.
- Reconcile data in the general ledger with all subsidiary systems.
- Ensure that field unit staff

  (1) promptly update the fixed asset subsidiary ledger system,

  (2) review and reconcile field unit ledgers with central accounting records, and

  (3) periodically inventory equipment.

- Improve accounting controls in the general ledger, and subsidiary systems by

  (1) clarifying and correcting written procedures for classifying payables and receivables;

  (2) supervising field staff to ensure that their work is accurate and timely, and that agency policies and procedures are followed; and

  (3) reviewing external and internal reports to ensure accuracy, consistency, and compliance to federal financial reporting requirements.

- Modify TSPIRS to incorporate procedures to (1) better match costs and volume of timber harvested, (2) improve the capitalization and depreciation of the cost of roads and related structures, and (3) periodically review growth pool balances and the amortization formula to determine how realistically they account for conditions in the forests.

Agency Comments

We provided a draft of this report to responsible Forest Service officials for comment. They concurred with our findings and have already initiated some corrective actions. For example, they said that the Forest Service

- has initiated a Service-wide effort to improve its financial management system and
- is continuing to refine its methodology for calculating the cost of timber sales.

Further, they stated that the Forest Service is committed to implementing the remaining recommendations.

Report on Compliance With Laws and Regulations

We have audited the financial statements of the Forest Service for the year ended September 30, 1988, and have issued our opinion thereon. This report pertains only to our consideration of compliance with laws and regulations for the year ended September 30, 1988.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Forest Service is the responsibility of the Forest Service's management. As part of obtaining reasonable assurance as to whether the financial statements were free of material misstatement, we selected and tested transactions and records to determine the Forest Service's compliance with provisions of the following laws and regulations which could have a material effect on the Forest Service's financial statements if not complied with:

- Anti-Deficiency Act (31 U.S.C. 1341 and 1342 and 1511-1519);
- National Forest Management Act of 1976, as amended (Public Law 94-588);
- legislation requiring the Forest Service to transfer 25 percent of each national forest's receipts to the state where the forest is situated (16 U.S.C. 500);
- Debt Collection Act of 1982 (31 U.S.C. 3302, 3711, and 3717); and
- Prompt Payment Act (39 U.S.C. 3901-3906).

The results of our tests indicate that for the items tested, the Forest Service complied, in all material respects, with the provisions referred to in the third paragraph, except for provisions of the Anti-Deficiency Act, as reported below.

With respect to transactions and records that were not tested by us, and except for the violations discussed below, nothing came to our attention that indicates that the Forest Service had not complied in all material respects with those same provisions.

Violations of the Anti-Deficiency Act

The Anti-Deficiency Act prohibits an officer or employee of a federal agency from making or authorizing an expenditure or obligation in excess of an amount available in an appropriation, apportionment, or fund (31 U.S.C. 1341 and 1517). For fiscal year 1988, the Forest Service violated the Anti-Deficiency Act in two instances:

- The Forest Service's Report of Budget execution for the National Forest System appropriation (1281106) as of September 30, 1988, showed that the obligations incurred exceeded the budgetary resources by $4,348,805. In June 1988, the National Finance Center notified the Forest Service that it was incurring obligations at a rate that would exceed the appropriated amount before the end of the fiscal year. On July 26, 1989, the Department of Agriculture notified the President and the Congress that the Forest Service had overobligated the fiscal year 1988 apportionment in the National Forest System account (1281106) by $4,348,804 in excess of the annual apportionment for the 1-year account.
- The Department also reported that on June 30, 1988, the Forest Service had overobligated the fiscal year 1987 allotment in the Job Corps account (12-167/80174) by $582,550.

In reporting the Anti-Deficiency Act violations, the Secretary of Agriculture attributed the Forest Service overobligations to several factors, including delays and errors in reporting obligations and inadequate attention to monitoring and managing year-end activities, and reported that a series of actions, including increased attention to financial management, a better management process to identify potential deficits, and improvements in the accuracy of the Forest Service's financial records, were being taken to improve oversight of obligations.

Financial Statements

Statement of Financial Position

As of September 30, 1988
(Dollars in Thousands)

ASSETS		
Funds With U.S. Treasury (note 2)	$1,503,929	
Accounts Receivable (note 5)	154,030	
Timber and Related Facilities (note 3)	7,627,916	
Land, Buildings, Equipment, and Roads (note 4)	1,629,770	
Future Financing Sources (note 2)	314,021	
Other Assets	29,410	
TOTAL ASSETS		$11,259,076
LIABILITIES		
Accounts Payable (note 2)	$ 394,800	
Advances from Timber Purchasers (note 3)	196,839	
Payments Due to States and Counties (note 6)	105,939	
Deferred Revenue Related to Purchaser Road Credits (note 3)	103,421	
Accrued Payroll and Related Liabilities	95,481	
Accrued Annual Leave	94,483	
Other Liabilities	186,476	
Total Liabilities		$ 1,177,439
Commitments and Contingencies (note 11)		
EQUITY OF THE U.S. GOVERNMENT		
Unexpended Appropriations (note 7)		
Unobligated Balances	$ 212,599	
Undelivered Orders	480,963	
Invested Capital (note 7)	9,172,976	
Trust Fund Balances (note 7)	215,099	
Total Equity of the U.S. Government		$10,081,637
TOTAL LIABILITIES AND EQUITY		$11,259,076

The accompanying notes are an integral part of these financial statements.

Statement of Operations

For Fiscal Year Ended September 30, 1988
(Dollars in Thousands)

OPERATING EXPENSES		
Cost of Timber Harvested (note 3)	$ 100,205	
Timber Sales and General Administration Expense (note 3)	595,010	
Land Management Expense (note 10):		
National Forest System	1,125,163	
State and Private Forestry	74,280	
Research	104,374	
Payments to States and Counties (note 6)	325,499	
Human Resource Program Expense	77,186	
Other Expenses	94,114	
TOTAL OPERATING EXPENSES		**$2,495,831**
OPERATING REVENUES		
Timber and Related Activities (note 3)	$1,404,575	
Mineral Rents and Royalties (note 8)	43,419	
Recreation, Permits, Fees and Other (note 9)	48,314	
Total Operating Revenues		**$1,496,308**
FINANCING		
Financing From Appropriations (note 2)	$1,378,817	
Financing From Trust Funds (net) (note 7)	207,461	
Reimbursements and Other	76,381	
Funds to be Provided by Future Appropriations (note 2)	2,834	
Total Financing		**$1,665,493**
TRANSFERS		
Amounts Remittable to U.S. Treasury (note 2)	($ 590,924)	
Purchaser Road Credits Transferred to Invested Capital (net) (note 3)	(75,046)	
Total Transfers		**($ 665,970)**
REVENUES, FINANCING, AND TRANSFERS		**$2,495,831**

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For Fiscal Year Ended September 30, 1988
(Dollars in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of Operating Expenses Over Operating Revenues		**($ 999,523)**
Adjustments to Reconcile With Net Cash Provided by Operating Activities:		
Amortization of TSPIRS Cost Pools	$ 505,358	
Depreciation	86,949	
Provision for Loss on Accounts Receivable	4,331	
Accrued Annual Leave Expense	2,834	
Amounts Remitted to U.S Treasury	(634,294)	
Revenue Recognized from Purchaser Road Credits	(103,505)	
Change in Assets and Liabilities:		
Increase in Accounts Receivable	(37,052)	
Increase in Other Assets	(1,754)	
Increase in Accounts Payable	81,771	
Decrease in Advances from Timber Purchasers	(40,106)	
Increase in Payments Due to States and Counties	23,996	
Increase in Other Liabilities	485	
Total Adjustments		**($ 110,987)**
Net Cash Provided by Operating Activities		**($1,110,510)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to TSPIRS Cost Pools	$ (574,272)	
Non-Timber Capital Expenses	(213,386)	
Net Cash Provided by Investing Activities		**($ 787,658)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received	$1,778,568	
Reimbursements and Other	76,381	
Increases in Trust Funds	340,474	
Decreases in Trust Funds	(552,043)	
Net Cash Provided by Financing Activities		**$1,643,380**
NET DECREASE IN FUNDS		**($ 254,788)**
FUNDS WITH U.S. TREASURY, BEGINNING OF YEAR		**$1,758,717**
FUNDS WITH U.S. TREASURY, END OF YEAR		**$1,503,929**

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

NOTE 1 - ORGANIZATION AND MISSION

The Forest Service was established on February 1, 1905 as an agency of the United States within the United States Department of Agriculture for the purpose of maintaining and managing the nation's forest reserves. It is under the jurisdiction of the Assistant Secretary for Natural Resources and Environment. Forest Service policy is implemented through nine regional offices, nine research offices, and one state and private forest area office, with 796 administrative units functioning in 46 states and Puerto Rico.

The Forest Service mission includes the following activities:

- Protection and management of 191 million acres of National Forest System land which includes 32.5 million acres of designated wilderness areas.
- Research and development of forestry and rangelands management practices to develop scientific and technical knowledge to enhance and protect the economic productivity and environmental quality of the nation's 1.6 billion acres of forests and associated rangelands.
- Cooperative agreements with state and local governments, forest industries, and private landowners to help protect and manage non-federal forests and associated range and watershed lands.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

In carrying out its mission to protect and manage the nation's forest reserves, the Forest Service utilizes 18 primary appropriations. In addition, it administers 12 permanent appropriations, 5 trust funds, 11 "Multiyear" accounts and 36 transfer and other appropriations.

The financial statements include all funds for which the Forest Service is responsible and are presented on the accrual basis of accounting in conformance with generally accepted accounting principles for federal agencies as promulgated in the GAO Policy and Procedures Manual for Guidance of Federal Agencies. All significant intra-agency balances and transactions have been eliminated in consolidation.

Financing From Appropriations

Financing sources are provided through Congressional appropriations on both an annual and multiyear basis to fund the Forest Service's operating and other expenses such as personnel compensation and fringe benefits, rents, communications, utilities, other administrative expenses and capital expenditures.

The current congressional budgetary process does not distinguish between capital and operating expenditures. For budgetary purposes, both are recognized as a use of budgetary resources as the funds are obligated. However, for financial reporting purposes, operating expenses are recognized as they accrue while expenditures for capital and other long-term assets are capitalized. They are recognized as expenses when they are consumed in the Forest Service's operations.

Appropriations for general fund activities are recorded as a financing source when earned. Unexpended appropriations are recorded as Equity of the U.S. Government. The reconciliation

to budget (note 12) presents a reconciliation of operating expenses on an accrual basis with budgetary expenditures.

Amounts Remittable to U.S. Treasury

The Forest Service receives revenue from timber and mineral sales, recreational fees and other activities. The Forest Service is authorized to use a portion of these revenues for specific purposes, such as reforestation of timber sales areas (note 7) and for Payments to States and Counties (note 6). All other revenue is remitted to the U.S. Treasury. Consequently, the Forest Service does not recognize a cumulative results from operations in its financial statements.

Future Financing Sources

Annual leave is accrued as earned and is relieved as leave is taken. Because the expense is not funded until payment is required, an amount due from Future Financing Sources is recognized in the financial statements. Additionally, a Future Financing Source is recognized for the Forest Service's unfunded liability under the Federal Employees Compensation Act (see Intragovernmental Financial Activities below).

Funds With U.S. Treasury

The Forest Service does not maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The balance in Funds With U.S. Treasury represents appropriated and trust funds that are available to pay current liabilities and to finance authorized purchase commitments. For the purposes of the Statement of Cash Flows, Funds With U.S. Treasury are considered a cash equivalent.

Accounts Payable

Accounts Payable represent the amounts due under contracts and owed by the Forest Service for goods and services received but unpaid for at fiscal year-end. Additionally, Accounts Payable recognize an amount for the Forest Service's unfunded liability under the Federal Employees Compensation Act (see Intragovernmental Financial Activities below).

Grants

The Forest Service's state and private grant program provides funds to protect and manage non-federal forests and associated range and watershed land. Grant expense recognition is based on expenditure reports submitted by grantees. They are included as a component of land management expense.

Administrative Expenses

A portion of the Forest Service's administrative expenses have been allocated to the timber program (note 3). However, no attempt has been made to allocate portions of administrative expense to the other Forest Service programs. Aggregate non-timber program administrative expenses are included as a component of land management expense.

Intragovernmental Financial Activities

The Forest Service's financial activities are related to and dependent upon those of the federal government as a whole. Thus, the Forest Service's financial statements do not reflect

the results of all financial decisions and activities applicable to it, as if it were a stand alone entity.

The Forest Service's financial statements are not intended to report the agency's proportionate share of the federal deficit or of public borrowing, including interest thereon. Financing for budget appropriations reported on the agency's Statement of Operations and Statement of Cash Flows could derive from tax revenues or public borrowing, or both; the ultimate source of this financing, whether from tax revenues or public borrowings, has not been specifically allocated to the Forest Service.

Retirement Benefits

During fiscal year 1988, the majority of the Forest Service's employees participated in the contributory Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS), to which the Forest Service made matching contributions. These contributions are recognized as expenses in the Statement of Operations. The Forest Service does not, however, report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to Forest Service employees since this data is reported in total by the Office of Personnel Management.

Job Corps

The Forest Service, through an interagency agreement with the Department of Labor (DOL), operates 18 Job Corps Civilian Conservation Centers providing basic education and job training to disadvantaged youth. The main purpose of the centers is to produce graduates who are able to find productive work, reenter school, or join the military. Enrollees receive room, board, clothing, skills training, education, and a monthly allowance instead of wages. Funds for the Job Corps program are allotted from DOL and accounted for by the Forest Service.

FECA

Legal actions brought by employees of the Forest Service for on the job injuries fall under the Federal Employees Compensation Act (FECA) administered by DOL. The Forest Service is billed annually (through the Department of Agriculture [USDA]) as its claims are paid by DOL. However, payment to DOL for these bills is deferred two years so they may be funded through the budget process. Payment of these claims is recognized as an expense in the Statement of Operations. An amount for unpaid FECA billings is included in Accounts Payable and Future Financing Sources. Additionally, DOL actuarially estimates a liability for the long-term payments for cases on hand for USDA as a whole. The Forest Service's portion of this estimate is reflected in Other Liabilities and Future Financing Sources.

Other intragovernmental financial activities include work performed under the Economy Act (31 U.S.C. 1535 - 1536) on behalf of other federal agencies (note 5) and activities related to Mineral Rents and Royalties (note 8).

NOTE 3 - TIMBER SALES PROGRAM

The Forest Service utilizes an accrual based Timber Sales Program Information Reporting System (TSPIRS) to report revenues and expenses associated with timber sales activities. The system was in its second year of testing during fiscal year 1988. It was revised and approved for

full utilization for fiscal year 1989. The system was designed to match current year timber revenues against single and multiyear program costs. TSPIRS recognizes revenues when timber is cut. The costs and expenses from TSPIRS are shown net of undelivered orders, thus they differ from the costs and expenses reported in Forest Service's fiscal year 1988 Timber Sale Program Annual Report.

Timber and Related Activities Revenue

For fiscal year 1988, the Forest Service reported $1,404,575,029 in revenues from timber sales and related activities. Included in these revenues are associated charges to timber purchasers for brush disposal, reforestation, road maintenance, erosion control, and other cooperative work; purchaser road credits; and other income related to the timber sales program. Fiscal year 1988 revenues by source were:

	(In thousands)
Timber Sales	$1,196,534
Associated Charges	102,170
Purchaser Road Credits	103,505
Other	2,366
Timber and Related Activities Revenue	$1,404,575

Advances from Timber Purchasers

The Forest Service receives prepayments and deposits from timber purchasers for timber not yet cut. These amounts are recognized as a liability, Advances from Timber Purchasers, because the timber is still in the possession and control of the Forest Service.

Purchaser Road Credits

The Forest Service allows timber purchasers to build certain roads to access timber, and will allow a portion of the road construction costs to be offset against the sales price of timber harvested under the purchaser's current or future sales contracts. The amount that the Forest Service allows the purchaser as an offset against payments for timber harvested is called a "purchaser road credit." In effect, purchaser road credits represent a non-cash financing source for the construction of roads.

The Forest Service only grants purchaser road credits when it has a use for the road that extends beyond the timber contract period for which the road was constructed. The amount of purchaser road credits that the Forest Service grants is based on a Forest Service engineering estimate that is made at the time of the initial timber sale.

Purchaser road credits are established when the Forest Service accepts the road. At that time, an asset (as a component of Timber and Related Facilities) and a corresponding liability (Deferred Revenue Related to Purchaser Road Credits) are recognized for the amount of credits established. The liability is subsequently relieved and recognized as equity (a component of Invested Capital) as purchaser road credits are used to pay in lieu of cash for the timber harvested.

Timber and Related Facilities

Timber and Related Facilities represent the unamortized portion of the TSPIRS cost pools (discussed in the following section). Amortization rates are determined with reference to costs, volume harvested, and the estimated total volume (board feet) of timber to be harvested

over the rotation period. A forest's rotation period is the average or typical length of time it takes a seedling to mature into a harvestable tree. At September 30, 1988 the unamortized pool balances were:

	(in thousands)
Sale Activity Pool	$ 671,905
Growth Activity Pool	6,918,388
Facilities Pool	37,623
Timber and Related Facilities	$7,627,916

TSPIRS Cost Pools

Multiyear costs associated with fiscal year 1988 timber sales are segregated into three categories:

Sales Activity Pool

The sales activity pool accumulates multiyear costs associated with sale planning and initial reforestation. Included in these costs are costs incurred in determining specie type and impacts on the environment before timber is offered for sale (silviculture examinations), preparing and offering timber for sale and sale award, road system inventory, transportation system planning, and development of five and ten year resource plans. The TSPIRS formula amortization rate is based on the relationship of the volume harvested to the volume of sales under contract. The formula used to amortize sale activity costs for fiscal year 1988 was:

$$\frac{\text{Balance of Costs in Pool}}{\text{Total Volume Under Contract End of FY Plus FY Volume Harvested}} \times \text{Volume Harvested During FY} = \text{Annual Expense}$$

At 1988 fiscal year-end, sale activity pool volume of timber under contract was 23.4 billion board feet.

Fiscal year 1988 volume harvested was 12.6 billion board feet.

Growth Activity Pool

The growth activity pool accumulates multiyear costs associated with timber growth during the rotation stage for a national forest. The pool contains costs for road construction, reforestation, and timber improvements (i.e. thinning) associated with the growth cycle. Costs accumulated in this pool are amortized based on the relationship of the annual harvest to the estimated volume to be harvested over the average rotation period of a national forest. The formula for amortizing growth activity costs for fiscal year 1988 was:

$$\frac{\text{Balance of Costs in Pool}}{\text{Total Volume Over Rotation Period}} \times \text{Volume Harvested During Fiscal Year} = \text{Annual Expense}$$

The growth pool timber volume over rotation period was 1.3 trillion board feet.

Facilities Pool

The facilities pool accumulates all capitalized costs for buildings and structures built for the timber program. This pool is amortized on a straight line basis over a 30 year period.

Cost of Timber Harvested

The amount amortized for fiscal year 1988 from the TSPIRS cost pools for Cost of Timber Harvested was:

	(in thousands)
Growth Activity Pool	$ 98,908
Facilities Pool	1,297
Cost of Timber Harvested	$ 100,205

Timber Sales and General Administration Expense

Timber Sales and General Administration Expense is comprised of the amount amortized for fiscal year 1988 from the TSPIRS Sale Activity Pool plus related single year costs. Single year costs are those expenses that can be directly matched to the current years' timber revenue. They are reported as an expense in the year they are incurred. For fiscal year 1988 Timber Sales and General Administration Expense was:

	(in thousands)
Sale Activity Pool	$ 405,153
Harvest Administration Expense	60,157
Timber General Administration Expense	129,700
Timber Sales and General Administration Expense	$ 595,010

NOTE 4 - LAND, BUILDINGS, EQUIPMENT, AND ROADS

Land

As of September 30, 1988 the Forest Service managed 190,612,565 acres of national forests, wilderness areas, grasslands, and other lands. These lands encompassed 46 states, commonwealths, or territories and contain more than 106,800 miles of recreational trails, 3,331 miles of the National Wild and Scenic Rivers System, 14 national recreation areas, 4,400 campgrounds, and 1,400 picnic grounds.

Land is recorded at cost. No value is recorded for public domain land because there was no carrying value associated with the land when it was transferred to the Forest Service. Public domain land consists of 162,956,550 acres, or 85% of the total acres managed. At September 30, 1988, the recorded value of Forest Service land was $829 million.

Forest Service Land

	Acres (in thousands)
National Forests	154,262
Wilderness Areas	32,500
National Grasslands	3,814
Land Utilization Projects	36
Total Acres	190,612

Land Acquisitions

In accordance with the Federal Land Policy and Management Act of 1976 (Public Law 94-579), land received in exchanges is capitalized at the appraised value, but no less than the recorded cost of the property exchanged, plus any additional remuneration. No value is accorded land exchanged for public domain land or land received in return for timber cut from public domain lands. Land donated to the Forest Service is not capitalized. Amounts associated with these donations are not material.

The Forest Service exchanges land with other governmental units, corporations and private land owners in order to facilitate land management objectives and consolidate land boundary lines. During fiscal year 1988, the Forest Service exchanged 90,944 acres of National Forest System land for 125,854 acres of non-federal land. The Forest Service received $865,425 in cash equalization payments and made $217,720 in cash equalization payments as part of the exchange.

Buildings, Equipment, and Roads

Buildings, Equipment, and Roads is comprised of all non-timber related buildings, facilities, equipment, and roads and is recorded at the acquisition cost. Buildings are depreciated on a straight-line basis over 40 years. Equipment is depreciated on a straight-line basis over a period of 5 years. Depreciable components of roads and related structures are expensed over an estimated useful life of 31.5 years. At September 30, 1988 the balances for buildings, equipment, and roads were:

	(in thousands)
Buildings	$1,135,472
Equipment	723,030
Roads	304,792
Subtotal	2,163,294
Accumulated Depreciation	(1,362,947)
Net of Depreciation	800,347
Land	829,423
Land, Buildings, Equipment, and Roads	$1,629,770

NOTE 5 - ACCOUNTS RECEIVABLE

Forest Service Accounts Receivable are comprised primarily of amounts due from other federal agencies for activities carried out under the auspices of the Economy Act (31 U.S.C. 1535 - 1536). This Act encourages federal agencies to engage other federal agencies in order to acquire the necessary expertise or to more efficiently achieve desired goals and objectives. The Forest Service has performed work in cooperation with other agencies within and outside of the Department of Agriculture including the Department of Interior, the Department of Defense, the Department of Labor, and the Department of Commerce. These programs include the Senior Community Service Employment Program, the Forestry Incentives Program, and the Agricultural Conservation Program. At September 30, 1988, Accounts Receivable from other federal agencies totalled $149,699,487. Accounts Receivable from the public were immaterial.

NOTE 6 - PAYMENTS TO STATES AND COUNTIES

Payments to States and Counties represents amounts paid pursuant to Public Law 60-136 (16 U.S.C. 500) which requires the Forest Service to make payments from monies received from the harvest of timber, sales of other forest products, and fees charged for using national forests and grasslands. These payments are made to state and local governments where national forests and grasslands are located. These distributions to states and counties reflect Congress' intent to recognize a national interest in education and road building in the affected areas.

NOTE 7 - EQUITY

Invested Capital

Invested Capital represents the U.S. Government's net investment in certain Forest Service assets, principally the unamortized balances in the TSPIRS cost pools, land, buildings, equipment, and roads. Financing for capitalized items is derived from both appropriations and revenues.

Unexpended Appropriations

Unobligated Balances

On July 26, 1989, the Forest Service reported two violations of the Anti-Deficiency Act (31 U.S.C Section 1517a). One violation occurred on June 30, 1988, in its Job Corps account (12-167/80174 - FY 1987) in the amount of $582,550. The second violation occurred on September 30, 1988 in its National Forest System account (1281106 - FY 1988) in the amount of $4,348,804. The over obligation in the Job Corps account resulted from unanticipated Office of Workers Compensation costs, Federal Employment Retirement System costs and increased costs to operate the Job Corps centers. The over obligation in the National Forest System account was due to errors in reported obligations, unplanned costs associated with the transfers of stations, and the impact of forest fire emergencies on key financial personnel. While the Forest Service over obligated these appropriations it had aggregated unobligated balances in excess of $212 million at fiscal year end.

Undelivered Orders

The Forest Service is committed under obligations it has incurred as of September 30, 1988, for goods and services which have been ordered but not received (Undelivered Orders). Aggregated Undelivered Orders amounted to $480,963,453 at September 30, 1988, and are comprised primarily of uncompleted contracts and orders placed by the Research and National Forest System activities.

Trust Fund Balances

Trust Fund balances are comprised of the Reforestation Trust Fund; the Cooperative Work Trust Fund (Knutson-Vandenberg); the Gifts, Donations, and Bequests for Forest and Rangeland Research Trust Fund; the Highway Construction Trust Fund; and the Highway Construction-Mount St. Helens Trust Fund. These funds can only be used for the purposes specified in the enabling legislation.

The Cooperative Work Trust Fund (Knutson-Vandenberg) was established to provide for the replanting of harvested timber tracts. A portion of the receipts from the sales of timber are

deposited in the Fund. The Forest Service is required to remit unused Knutson-Vandenberg funds over a specified amount to the Treasury.

Federal Law (16 U.S.C. Section 556d) provides that the Forest Service may advance money from any Forest Service appropriation to the fire fighting appropriation for the purpose of fighting fires. However, the Forest Service must submit a request for a supplemental appropriation for these expenses. During fiscal years 1986 through 1988 the Forest Service incurred $807 million of obligations to fight fires which were not funded in advance by appropriations. The Forest Service used unobligated Trust Funds to pay these expenses. As of September 30, 1988, the Forest Service had received $299 million in supplemental appropriations for these expenses.

NOTE 8 - MINERAL RENTS AND ROYALTIES

Mineral Rents and Royalties are received by both the Forest Service and the Department of Interior for the extraction of oil, minerals, and other natural resources from Forest Service land. Only amounts collected by the Forest Service are included in the financial statements. Because these assets were acquired as part of the land (note 4), no additional value has been attributed to them.

Royalty payments are received for oil, natural gas, coal and lead based on the amount extracted. Rent payments are collected on acreage leased. Payments received from the sale of sand, gravel and other rocks are on a per ton basis.

The Department of Interior, Bureau of Land Management, pursuant to authority granted under the Minerals Leasing Act of 1920 (30 U.S.C. 181, et seq.), the Mineral Leasing Act for Acquired Lands (30 U.S.C. 351-359), the Geothermal Act of 1970 (30 U.S.C. 1001, et. seq.) and various other Acts covering specific minerals, issues leases and oversees exploration, development, production and transportation of federally owned leasable minerals within the National Forest System. These Acts require the Department of Interior to obtain the consent of the Forest Service before leasing the minerals on Forest Service lands. The collection function for rents and royalties received from these leases falls under the jurisdiction of the Department of Interior, Minerals Management Service (MMS). Receipts collected by MMS from public domain lands are recorded in the MMS treasury accounts. Receipts related to these leases were estimated to be $137,250,000 for fiscal year 1988.

NOTE 9 - RECREATION, PERMITS, FEES, AND OTHER REVENUE

In addition to timber and mineral receipts, the Forest Service sells power and collects fees for the use of other forest and grassland resources. For fiscal year 1988 these fees, including cooperative deposits, interest, and penalties associated with all other activities were:

	(in thousands)
Recreation - Special Use Fees	$ 34,255
Grazing	8,737
Land Uses	4,471
Power	851
Recreation, Permits, Fees, and Other Revenue	$ 48,314

NOTE 10 - LAND MANAGEMENT EXPENSE

National Forest System

National Forest System (NFS) expenses include all program expenses related to the managing and maintenance of the 191 million acres comprising the National Forest System that are not included in the TSPIRS system. TSPIRS reports timber sales program expenses as Cost of Timber Harvested and Timber Sales and General Administration Expense (note 3). NFS expenses include land use planning and plan implementation, land line location projects, fire fighting expenses, and recreational area maintenance and development.

State and Private Forestry

The Forest Service has the primary responsibility to coordinate the planning, management, and protection of the nation's forested and associated range and watershed lands among all ownerships. State and Private Forestry expenses include those incurred for fire prevention and forest pest management in state and private forests, resource conservation and development, and other cooperative projects.

Research

Forest Service research develops scientific and technical knowledge to enhance and protect the economic productivity and environmental quality of the nation's 1.6 billion acres of forests and associated rangelands. Priority research programs include assessing the effects of acid rain on forests and wetlands, controlling pest outbreaks, studying the effects of forest use on wildlife, and developing fire behavior protection systems.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Lawsuits and Other

Most legal actions that affect the Forest Service and involve an amount in excess of $2,500 fall under the Federal Tort Claims Act and are paid from the Claims, Judgments and Relief Acts Fund maintained by the Department of Treasury. Since the Forest Service is not required to reimburse this Fund for payments made on its behalf, the amount of payments from the Fund for the Forest Service are not reflected in the Forest Service's financial statements. During fiscal year 1988, $1,731,294 was paid from the Fund to settle actions against the Forest Service.

In the opinion of Forest Service management and general counsel, the ultimate resolution of any pending legal actions or claims will not materially affect the Forest Service's operations or financial position.

Hazardous Waste Cleanup

Under the provisions of the Comprehensive Environment Response, Compensation, and Liability Act ("Superfund"), the Clean Air Act and other Acts, the Forest Service has an estimated contingent liability of between $80 and $233 million to clean up hazardous materials on Forest Service land. The hazardous waste problems include improper handling of toxic chemicals at research facilities, inadequate storage of pesticides and other hazardous substances, past uncontrolled land disposal of hazardous substances, point and nonpoint source water pollution, and leaking underground storage tanks.

NOTE 12 - RECONCILIATION TO BUDGET REPORTS

The following schedule reconciles total costs and expenses as reported in the Statement of Operations with outlays as reported to the Office of Management and Budget (OMB) for the fiscal year ended September 30, 1988:

		(in thousands)
Total Expenses Reported on Statement of Operations		$2,495,831
Deduct Expenses Not Requiring Outlays:		
Amortization of TSPIRS Cost Pools	($505,358)	
Accrued Payments to States and Counties Expense	(105,939)	
Depreciation Expense	(86,949)	
Provision for Losses on Accounts Receivable	(4,331)	
Accrued Annual Leave Expense	(2,834)	
Total Expenses Not Requiring Outlays		(705,411)
Expenses Requiring Outlays		1,790,420
Other Adjustments:		
Outlays Invested in Capital Activities:		
Additions to TSPIRS Cost Pools	574,272	
Non-timber Capital Expenses	213,386	
Adjustments to Reconcile Accrued Expenses With Reported Outlays:		
National Forest System (including fire fighting)	90,845	
Payments to States and Counties	85,465	
Research Programs	25,354	
State and Private Forestry	5,888	
Total Other Adjustments		995,210
Total Outlays		2,785,630
Less Offsetting Collections		(97,651)
Net Outlays Reported to OMB		$2,687,979